




City of  
**FRESNO**  **REPORT TO THE CITY COUNCIL**

June 19, 2014

AGENDA ITEM NO.	2B
COUNCIL MEETING	06/19/14
APPROVED BY	
	
DEPARTMENT DIRECTOR	
	
CITY MANAGER	

**FROM:** Department of Public Utilities

**BY:** MARTIN A. QUERIN, PE, Assistant Director  
Department of Public Utilities – Water Division 

BROCK D. BUCHE, PE, PLS, Supervising Professional Engineer  
Department of Public Utilities – Water Division 

GLENN A. KNAPP, PE, Professional Engineer  
Department of Public Utilities – Water Division 

**SUBJECT:** Actions pertaining to submittal of Applications for Consolidation Incentive Safe Drinking Water State Revolving Fund Low-Interest Loans

1. Adopt a resolution authorizing submittal of an application to the California Department of Public Health for a State Revolving Fund Consolidation Incentive Low Interest Loan in the amount of \$240,000,000 for construction of the City of Fresno's 80-million gallon per day Southeast Surface Water Treatment Facility
2. Adopt a resolution authorizing the City of Fresno to submit an application to the California Department of Public Health on behalf of the Orange Center School District for a State Revolving Fund Consolidation Incentive Low Interest Loan in the amount of \$3,000,000 for the abandonment of the Orange Center School District water system well, construction of a water utility service pipeline for consolidation with the City of Fresno's water system, and resolution of on-site water quality issues
3. Authorize the Assistant Director of Public Utilities, or his designee, to execute all application documents on behalf of the City of Fresno

**RECOMMENDATIONS**

Staff recommends that City Council:

1. Adopt a resolution authorizing submittal of an application to the California Department of Public Health (CDPH) for a State Revolving Fund (SRF) low interest loan in the amount of \$240,000,000 for construction of the City of Fresno's (City's) 80-million gallon per day (MGD) Southeast Surface Water Treatment Facility (SESWTF).

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2. Adopt a resolution authorizing the City to submit an application to the CDPH on behalf of the Orange Center School District (OCSD) for a SRF Consolidation Incentive low interest loan in the amount of \$3,000,000 for the abandonment of the OCSD water system, construction of a water utility service pipeline for consolidation with the City's water system, and resolution of on-site water quality issues.
3. Authorize the Assistant Director of Public Utilities, or his designee, to execute all application documents on behalf of the City.

## EXECUTIVE SUMMARY

Upon invitation by the CDPH, the City's Department of Public Utilities/Water Division, requests Council to authorize submittal of two funding applications in accordance with SRF "Consolidation Incentive" (CI) guidelines for construction of the City's 80 MGD SESWTF and consolidation of the OCSD water system with the City's water system. Under SRF guidelines, combining these two projects reclassifies the lower (non-fundable) project to the higher priority (fundable) project category.

Although City bond rates are anticipated to be somewhere between 5% and 6%, SRF interest rates are typically 50% of the State's average interest rate paid on general obligation bonds, and are estimated to be at or near 2% with an assumed loan term of 20 years. The benefits through submission of these funding applications not only include significant long-term savings for City rate payers, but an avenue for the City to participate in the elimination of water quality health and safety risks to a disadvantaged community.

## BACKGROUND

The Federal Safe Drinking Water Act (SDWA) Amendments of 1996 authorized the creation of a drinking water state revolving fund program. The Safe Drinking Water State Revolving Fund (SDWSRF) program provides financial assistance in the form of federal capitalization grants to states that in turn provide low interest loans and other assistance to a public water system. Program goals include both federal and state legislative intent to provide funding for the construction of technically sound drinking water infrastructure projects which encourage energy efficiency and water conservation measures. In May 2013, pre-applications for the Fall State Fiscal Year 2013-2014 SDWSRF funding cycle became available.

On June 27, 2013, the City submitted a pre-application for construction funding for the City's 80 MGD SESWTF. Upon review of pre-application information, the CDPH ranked the project into Category 'M' on the Project Priority List (PPL). Although CDPH funding categories typically range from Category "A" to "O", eligible funding categories for this funding cycle were restricted to Categories "A" to "G" (with Category "A" being the highest health and safety concern).

Shortly thereafter, the CDPH presented the opportunity for possible project 're-ranking' to a fundable category through their CI funding program. In short, a public water system (PWS) with a project ranked in a lower PPL category (less serious health concern) that agrees to physically consolidate a

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disadvantaged PWS with a higher ranked project, could be re-ranked into the same PPL category as the disadvantaged PWS with the higher ranked problem.

The OCSD is a K-6 school and has operated its own water system under CDPH Permit Number 03-23-12P-007 since the early 1950's. The school is located at 3530 South Cherry Avenue (within the City's Sphere of Influence), and is currently unable to provide potable water for approximately 410 students and staff. The school is classified as a severely disadvantaged community and has experienced water system contamination issues (lead and total coliform) over the last six years. The school's on-site water well was installed in the early 1950's, later modified in the early 1980's, and has exceeded its useful service life. School students and staff are currently provided bottled water through a separate CDPH program.

To meet CI Program requirements, the City would be the lead agency to submit an additional funding application on behalf of the school district that would result in the abandonment of OCSD's existing water system service well, construction of a water utility service pipeline for consolidation with the City's water system, and resolution of on-site water contamination issues. As part of SRF CI Loan requirements, and prior to an executed funding agreement, an extra-territorial water service agreement (ETA) between the City and OCSD will be executed. A draft of the ETA has been reviewed by the City's Attorney's Office and as required, will be submitted with the application documents.

On April 8, 2014, the school Board of Trustees approved and signed OCSD Resolution 14-4-8, authorizing the City to submit a funding application on behalf of the school district. Both SESWTF and OCSD application resolutions have been reviewed and approved as to form by the City Attorney's Office.

Adoption of these Resolutions authorizing the Water Division to submit the loan applications and identifying the individual authorized to execute agreements is necessary to proceed.

## ENVIRONMENTAL FINDINGS

Authorization to submit an application for a SRF loan is not a "project" for the purposes of California Environmental Quality Act (CEQA), as it is a funding mechanism or other government fiscal activity, and does not involve commitment to any specific project which may result in a potentially significant physical impact on the environment as contemplated by CEQA Guidelines Section 15378(b).

## LOCAL PREFERENCE

Not applicable

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### **FISCAL IMPACT**

There is no impact to the General Fund. The debt service costs for the construction of the SESWTF have been anticipated and were included in the water rate model used to create the four-year utility rate plan and subsequently adopted by City Council on August 15, 2013 (Resolution 2013-143). All future fiscal year budgets will be developed and proposed to ensure that adequate coverage ratios are maintained for all existing and additional debt that is incurred. The SRF interest rates are estimated to be at or near 2% with an assumed loan term of 20 years. This would result in considerable savings in debt costs compared to bond financing which is currently estimated at 5% to 6% over 30 years. Total project funding may be realized over multiple annual funding cycles with initial funding anticipated to be at or near \$50,000,000.

#### Attachments:

- 1 80 MGD SESWTF SRF Application Resolution
- 2 OCSD SRF Application Resolution

RESOLUTION NO.: \_\_\_\_\_

A RESOLUTION OF THE COUNCIL OF THE CITY OF FRESNO, CALIFORNIA, AUTHORIZING AN APPLICATION TO THE CALIFORNIA DEPARTMENT OF PUBLIC HEALTH FOR A STATE REVOLVING FUND LOW INTEREST LOAN FOR CONSTRUCTION OF AN 80 MILLION GALLON PER DAY SURFACE WATER TREATMENT FACILITY IN SOUTHEAST FRESNO AND AUTHORIZING THE EXECUTION OF DOCUMENTS

WHEREAS, during 1996, Congress adopted amendments to the Safe Drinking Water Act that included grants to states to establish a State revolving fund program. The objective of this program is to provide low interest loans and other types of assistance to public drinking water systems to make necessary improvements to those systems;

WHEREAS, the California Department of Public Health (CDPH) has been delegated the responsibility for the administration of the Safe Drinking Water State Revolving Fund Loan Program (Cal. Health & Safety Code Section 11676 et. seq.) within the state, setting up necessary guidelines for water systems under the program;

WHEREAS, the City of Fresno (City) Department of Public Utilities (DPU) has submitted a pre-application to the CDPH as an expression of interest for a State Revolving Fund low interest loan to carry out construction of the City's proposed 80-Million Gallon per Day Surface Water Treatment Facility in southeast Fresno (Project), in order to provide a sustainable and reliable potable water source;

1 of 4

Date Adopted:

Date Approved:

Effective Date:

City Attorney Approval:



Resolution No. \_\_\_\_\_

WHEREAS, the CDPH has invited the City's DPU to submit a loan application to fund said Project;

WHEREAS, the City is desirous of submitting a loan application to fund said Project; and

WHEREAS, the CDPH requires that the governing body of the applicant submit a resolution designating an authorized representative or his designee to execute the loan application to the state.

NOW, THEREFORE, BE IT RESOLVED BY THE Council of the City of Fresno as follows:

1. The Council of the City of Fresno, California, authorizes the submittal of an application to the CDPH for a Safe Drinking Water State Revolving Fund (SDWSRF) low interest loan in the amount of \$240,000,000.00 for the Project provided that: (i) the City shall not be bound under the application, nor shall City accept or be deemed to have accepted the SDWSRF loan referenced in the application, absent City Council approval of loan terms and conditions that are consistent with SDWSRF program requirements and all constitutional and local law requirements, which terms and conditions shall be contained in written contract prior to approval as to form by the Office of the City Attorney, (ii) the application does not and shall not be deemed to constitute a certification or opinion by the Office of City Attorney as to any matter embraced therein, (iii) the City's legal authority, liability and obligation under any program loan agreement is subject to constitutional and local law requirements, this

resolution and pledged, segregated revenue sources identified and appropriated under the agreement.

2. The City DPU Director designee(s) thereof are authorized and empowered to execute the application in the name of the City.

3. The Office of the City Attorney is authorized to execute program related certifications, assurances and opinions.

4. Subject to the foregoing provisions, the City certifies it has legal authority to participate in the loan program with the state.

5. Nothing in this resolution binds or obligates the City's general fund, taxing authority, or borrowing power.

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STATE OF CALIFORNIA )  
COUNTY OF FRESNO ) ss.  
CITY OF FRESNO )

I, YVONNE SPENCE, City Clerk of the City of Fresno, certify that the foregoing resolution was adopted by the Council of the City of Fresno, at a regular meeting held on the \_\_\_\_ day of \_\_\_\_\_, 2014.

AYES:  
NOES:  
ABSENT:  
ASBTAIN:

Mayor Approval: \_\_\_\_\_, 2014  
Mayor Approval /No Return: \_\_\_\_\_, 2014  
Mayor Veto: \_\_\_\_\_, 2014  
Council Override Vote: \_\_\_\_\_, 2014

YVONNE SPENCE, CMC  
City Clerk

By: \_\_\_\_\_  
Deputy

APPROVED AS TO FORM:  
CITY ATTORNEY'S OFFICE

By: \_\_\_\_\_  
Brandon M. Collet      Date  
Deputy

BMC:prn [64144bmc/reso] 03-11-14

RESOLUTION NO. \_\_\_\_\_

A RESOLUTION OF THE COUNCIL OF THE CITY OF FRESNO, CALIFORNIA, AUTHORIZING THE FILING OF AN APPLICATION TO THE CALIFORNIA DEPARTMENT OF PUBLIC HEALTH FOR A STATE REVOLVING FUND LOW INTEREST LOAN FOR THE ABANDONMENT OF THE ORANGE CENTER SCHOOL DISTRICT WATER SYSTEM AND CONSTRUCTION OF A WATER UTILITY SERVICE PIPELINE FOR CONSOLIDATION WITH THE CITY OF FRESNO WATER SYSTEM AND AUTHORIZING THE EXECUTION OF DOCUMENTS.

WHEREAS, during 1996, the United States Congress adopted amendments to the Safe Drinking Water Act that included grants to States to establish a State Revolving Fund (SRF) program to provide low interest loans and other types of assistance to public drinking water systems to make necessary improvements to those systems;

WHEREAS, the California Department of Public Health (CDPH) has been delegated the responsibility for the administration of the Safe Drinking Water State Revolving Fund Loan Program (Cal. H.S.C. 11676 et. seq.) within the State, setting up necessary guidelines for water systems under the program;

WHEREAS, the Orange Center School District (OCSD) has requested to be consolidated with the City of Fresno's Department of Public Utilities (City's) water system through construction of a water service connection pipeline and remediation of onsite water system issues (Project), and execution of an extra-territorial agreement;

WHEREAS, in accordance with Fresno Municipal Code, Chapter 6, Article 5, the City has the legal authority to provide domestic water service; assess water rates and enter into contracts and incur debt on behalf of the OCSD;

WHEREAS, Project completion utilizing SRF Loan funding is contingent upon meeting CDPH SRF Loan 'Disadvantaged Community Consolidation Incentive Program' (Incentive Program) requirements;

WHEREAS, the City has submitted a pre-application to the CDPH as an expression of interest for a SRF low interest loan to construct the City's proposed 80-Million Gallon per Day (80MGD) Surface Water Treatment Facility in southeast Fresno (SESWTF);

WHEREAS, the City's SESWTF pre-application has been granted a Re-Ranking Request by the CDPH as a first step in meeting Incentive Program requirements for OCSD Project funding inclusion and eligibility under the SRF funding program;

WHEREAS, the City maintains the capacity to meet OCSD's water utility service requirements;

WHEREAS, on April 8, 2014, through Resolution No. 14-4-8, and in accordance with Incentive Program requirements, the Orange Center Board of Trustees approved the City to submit a SRF funding application on behalf of the school district;

WHEREAS, the OCSD and City's Department of Public Utilities are desirous of submitting a loan Application to fund said Project; and

WHEREAS, the CDPH requires that the governing body of the applicant submit a resolution designating an authorized representative or his designee to execute the Application to the State.

NOW, THEREFORE, BE IT RESOLVED BY THE Council of the City of Fresno as follows:

1. The Council of the City of Fresno, California, authorizes the submittal of an Application to the CDPH for a Safe Drinking Water State Revolving Fund (SDWSRF) low interest loan in the amount of \$3,000,000.00 for the Project provided that: (i) the City shall not be bound under the Application, nor shall City accept or be deemed to have accepted the SDWSRF loan referenced in the Application, absent City Council approval of loan terms and conditions that are consistent with SDWSRF Program requirements and all constitutional and local law requirements, which terms and conditions shall be contained in written contract prior to approval as to form by the Office of the City Attorney; (ii) the Application does not and shall not be deemed to constitute a certification or opinion by the Office of City Attorney as to any matter embraced therein; (iii) the City's legal authority, liability and obligation under any program loan agreement is subject to constitutional and local law requirements, this resolution and pledged, segregated revenue sources identified and appropriated under the agreement.

2. The City of Fresno Public Utilities Director designee(s) thereof are authorized and empowered to execute the Application in the name of the City of Fresno.

3. The Office of City Attorney is authorized to execute program related certifications, assurances and opinions.

4. Subject to the foregoing provisions, the City certifies it has legal authority to participate in the loan program with the State.

5. Nothing in this resolution binds or obligates the City's general fund, taxing authority, or borrowing power.

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STATE OF CALIFORNIA )  
COUNTY OF FRESNO ) ss.  
CITY OF FRESNO )

I, YVONNE SPENCE, City Clerk of the City of Fresno, certify that the foregoing resolution was adopted by the Council of the City of Fresno, at a regular meeting held on the \_\_\_\_\_ day of \_\_\_\_\_, 2014.

AYES :  
NOES :  
ABSENT :  
ABSTAIN :

Mayor Approval: \_\_\_\_\_, 2014  
Mayor Approval/No Return: \_\_\_\_\_, 2014  
Mayor Veto: \_\_\_\_\_, 2014  
Council Override Vote: \_\_\_\_\_, 2014

YVONNE SPENCE, CMC  
City Clerk

BY: \_\_\_\_\_  
Deputy

APPROVED AS TO FORM:  
DOUGLAS T. SLOAN  
City Attorney

BY: \_\_\_\_\_  
Brandon M. Collet      Date  
Deputy

BMC:prn [64505prn/reso] 04-16-14